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OPEN MEETING AGENDA ITEM

ORIGINAL 30SR

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUN 24 2002

DOCKETED BY

2002 JUN 24 A 9:46

AZ CORP COMMISSION
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Chairman3 JIM IRVIN
Commissioner4 MARC SPITZER
Commissioner

6 IN THE MATTER OF THE JOINT APPLICATION
7 OF SUN CITY WATER COMPANY AND SUN
8 CITY WEST UTILITIES COMPANY FOR
9 APPROVAL OF CENTRAL ARIZONA PROJECT
10 WATER UTILIZATION PLAN AND FOR AN
11 ACCOUNTING ORDER AUTHORIZING A
12 GROUNDWATER SAVINGS FEE AND
13 RECOVERY OF DEFERRED CENTRAL
14 ARIZONA PROJECT EXPENSES

Docket No. W-01656A-98-0577
WS-02334A-98-0577RESPONSES TO THE EXCEPTIONS
TO THE RECOMMENDED OPINION
AND ORDER OF STAFF

13 Arizona Corporation Commission Staff ("Staff") hereby responds to the Exceptions filed by
14 the Sun City Taxpayers Association ("SCTA") and the Residential Utility Consumer Office
15 ("RUCO"). In this Response, Staff will address two subjects: 1) the new information about the Agua
16 Fria Recharge Facility and 2) the future ratemaking implications of this order.

17 I. Lease Capacity at the Central Arizona Water Conservation District ("CAWCD")

18 In its exceptions, the SCTA refers to certain events relating to the Agua Fria Recharge
19 Facility that have occurred since the record closed. Although the Agua Fria Recharge Facility has
20 recently begun operations, the implications of that facility were thoroughly studied by the CAP Task
21 Force.

22 On October 2, 1998, the Sun City Water Company and Sun City West Utilities Company
23 ("the Companies") filed a joint application in this proceeding for approval of a Central Arizona
24 Project ("CAP") Water Utilization Plan. Within the joint application, the final report of the CAP
25 Task Force identified six options for taking and using CAP water; three options were associated with
26 groundwater recharge and three for direct use. One option for recharge was the "Lease Capacity at
27 CAWCD's Agua Fria Recharge Project." The CAP Task Force developed and defined criteria for
28

1 evaluating water use options, including relinquishment, and the Task Force recommended a
2 combination of options to fulfill the long and short-term needs of the Sun Cities.

3 The long-term recommendation selected was the "Sun Cities/Youngtown Groundwater
4 Savings Project", which is the same Groundwater Savings Project ("GSP") referred to in this
5 proceeding. An interim solution was recommended to resolve the issue of CAP water being "used
6 and useful" until the GSP was to be completed. This interim solution recommended that the Sun
7 Cities recharge CAP water at the existing Maricopa Water District ("MWD") or, if the MWD project
8 was not available, then at the CAWCD's Agua Fria Recharge Project. The Sun Cities' began
9 recharging water in the MWD project on March 1, 2000.

10 The Managed and Constructed Recharge Facilities of CAWCD's Agua Fria Recharge Project
11 have just been completed, with operational and monitoring data being available for only the Managed
12 Facility activities. The Constructed Facility consists of the actual recharge basins of the project and
13 is located three miles north of the Sun Cities. According to the Task Force Report, the Agua Fria
14 project, along with the MWD project, is considered an interim solution because of the indirect
15 benefits, i.e., outside the certificated areas to the Sun Cities' service areas. Although the facility
16 recently began operating, it was among the alternatives considered in the Task Force Report.

17 **II. Instead of evaluating all aspects of the GSP on the merits, the Commission should**
18 **instead issue an order that recognizes that the Companies have submitted the PER in**
19 **compliance with Decision No. 62293 and that the PER adequately addresses the three topics**
20 **enumerated therein.**

21 From the beginning of this proceeding, Staff has viewed it as a compliance matter. The
22 Companies were required to submit a preliminary engineering report addressing three factors: 1) the
23 feasibility of a joint facility with the Agua Fria Division, 2) the need for all major elements of the
24 proposed plan, and 3) the progress in obtaining binding commitments from the golf courses. The
25 Companies have now submitted the report, and Staff has concluded that the report is reasonable. By
26 contrast, the other parties appear to view this proceeding as a prudence review for ratemaking
27 purposes.

28 This proceeding has addressed the PER with all the thoroughness and detail usually associated
with a rate case. Although such attention to detail may be commendable, the timing is simply not

1 appropriate. Typically, utility commissions evaluate prudence issues after the fact. This allows the
2 Commission to evaluate all the facts underlying the decision. It also places the ultimate decision
3 where it belongs: with utility management. Dealing with prudence issues in advance requires the
4 Commission to evaluate the project with less than complete information. This is unfortunate, because
5 it involves the Commission in deciding whether the project should go forward. That determination
6 belongs to the Companies, and the Commission should resist the temptation to make that decision for
7 them.

8 This process began as an endeavor to enable the Companies to decide how to use their CAP
9 water allocation. It is in danger of evolving into a process in which the Commission may be
10 encouraged to micromanage the Companies' decisions. This not only allows the Companies to shift
11 part of the decision making to the Commission, it also gives opponents of the GSP a greater
12 opportunity to trap the Commission into an endless process of study and review. At some point, the
13 Companies must accept that the decision of whether to proceed is theirs, not the Commission's.

14 Staff believes that the Proposed Order acknowledges these concepts by recognizing that
15 recovery of GSP costs will be addressed in a subsequent ratemaking proceeding. Staff also supports
16 the ordering paragraph proposed by the SCTA on p. 11 of its Exceptions, which appears to put all
17 parties on notice that this proceeding will have no future ratemaking implications beyond cost
18 recovery of the PER.

19 Alternatively, Staff notes that the best course for the Commission may be to refrain from
20 issuing an order in this matter at all or to limit its order to concluding that the Companies have
21 complied with Decision No. 62293 by filing the PER. Staff is concerned that the parties to this
22 proceeding are using it to limit the Commission's future options or to paralyze the decision making
23 process. This case is a classic example of why utility commissions conduct prudence reviews after-
24 the-fact. Staff urges the Commission to follow that traditional model.

1 **III. Conclusion**

2 For the reasons stated above, Staff recommends that the Commission include language in this
3 order that 1) preserves its ability to conduct a subsequent prudence review of the plant and 2)
4 prevents the parties from seeking any additional before-the-fact review.

5
6 RESPECTFULLY SUBMITTED this 24th day of June, 2002.

7
8 ARIZONA CORPORATION COMMISSION
9

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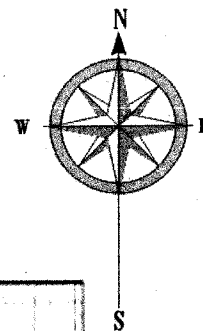
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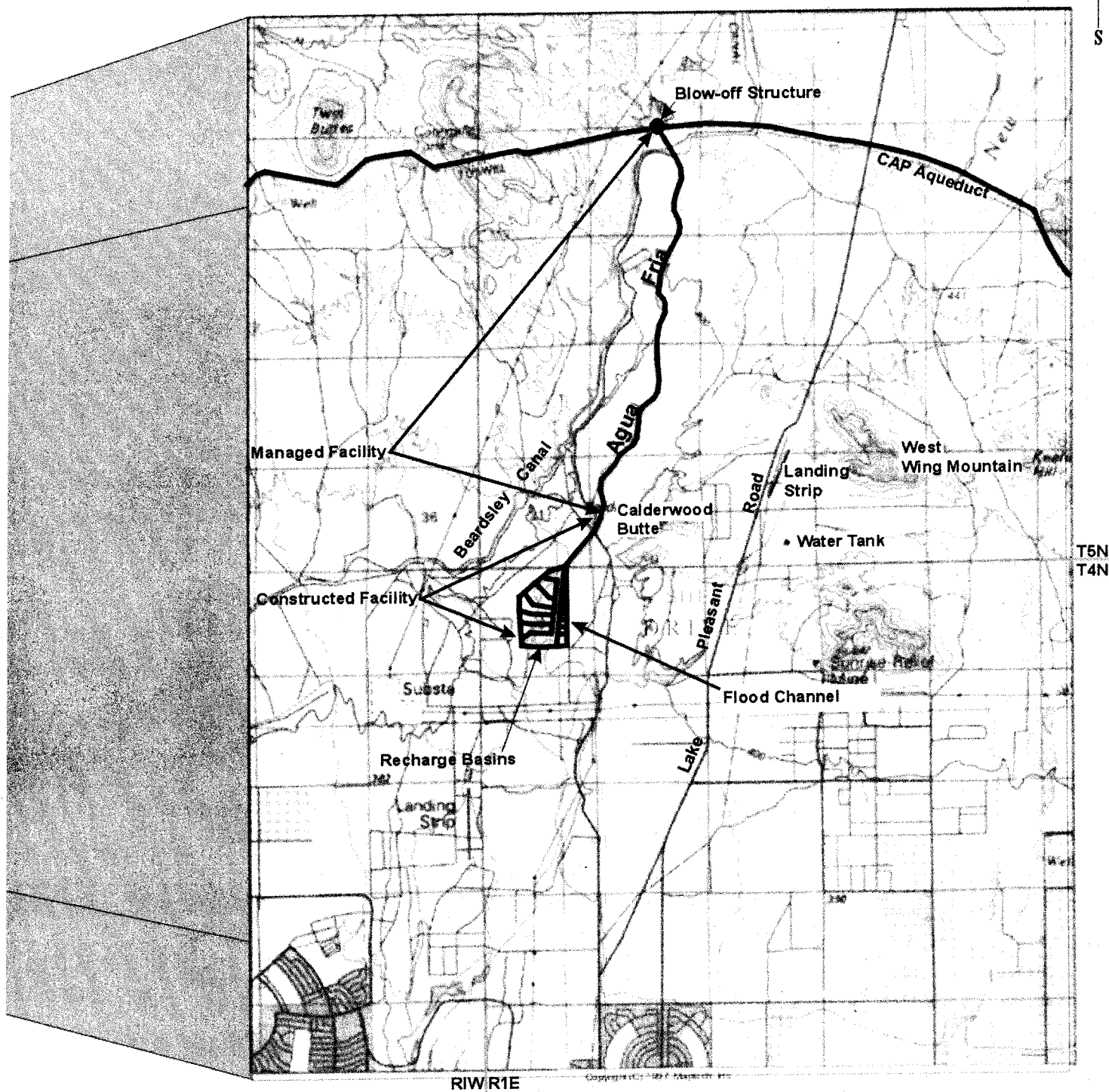
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CAP AGUA FRIA RECHARGE PROJECT AREA



Agua Fria
Recharge Project
SITE LOCATION MAP

FIGURE

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March 2002